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11 June 1975

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MEMORANDUM FOR THE RECORD

SUBJECT: Current Posture Briefing for Senate
Appropriations Subcommittee (McClellan)

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O/DDI on 6 June 1975, for use by the DCI in briefing
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6 June 1975

DCI CONGRESSIONAL BRIEFING

FOOD AND POPULATION PROBLEMS

- I. Mr. Chairman, I would like to speak briefly of a problem on which international action is dragging: how to provide enough food for the world's rapidly growing population in the developing countries.
 - A. Population growth in the developing nations, which have about 75 percent of the world's people, exceeds projected rates of food production.
 1. Demand there is projected to grow at 3.4 percent per year, while food production will grow by only 2.6 percent. Most of this mounting demand will come simply from there being more mouths to feed.
 2. There are no effective population control measures underway to stem growth in the poor, food-deficit nations.

- B. Indeed, recent US and UN studies conclude that if past production trends continue, the developing countries' food deficits will grow larger and larger.
- II. It is widely accepted that if large-scale famine is to be averted in the long run, the wealthy and poor nations must work together by boosting food production in the developing nations.
 - A. So far progress has been slow on implementing resolutions passed at the World Food Conference for an agriculture development fund, a system of international reserves, and a consultative group on food production and investment in developing countries.
 - B. In the meantime, the high costs for energy will continue to slow the expanded use of fertilizer and machinery for boosting crop yields.
 - C. Also, unless developing countries take measures to slow population growth, the chances of closing the food gap are remote.

III. I raise this issue once again, Mr. Chairman, because as a major surplus food producer US involvement in the international food problem is inescapable, and will grow in the coming years. There is also the danger that we and other nations may become complacent about the problem if current prospects for a bumper grain harvest this year are realized.

- A. Pressures for food aid and other concessional help to poor nations may grow in the short run even if they undertake new production programs.
- B. Any system of international grain reserves for aid and supply stabilization purposes will involve the US if it is to succeed.
- C. Future issues facing the US will include the impact of larger food exports on domestic price levels, and how to allocate food exports between the affluent and poor nations.

6 June 1975

DCI CONGRESSIONAL BRIEFING

THE OIL SITUATION

- I. Turning to the international oil situation, Mr. Chairman, I would like to speak briefly of the price, production, and ownership situations, and then comment on a few repercussions of the extraordinary changes we have experienced in the past 15 months or so.
- II. First, the price outlook. It now seems certain that OPEC will once again hike oil prices effective 1 October.
 - A. We believe that the increase will be much smaller than the \$2.00 to \$4.00 mentioned in the press -- perhaps less than \$1.00.
 1. The initial increase may well be followed by a more substantial rise early in 1976.
 2. The size of the increase will be greater if economic recovery in the OECD countries is reflected in strong demand for OPEC oil.
- III. Until recently the OPEC members were cutting oil production to maintain prices. This is no longer necessary.
 - A. The long decline in OPEC oil production seems to have bottomed out in April. Sharp drops in Saudi Arabia, Nigeria and Kuwait were offset by increases in Iraq, Abu Dhabi, Libya, and Qatar.

B. Continuing inventory drawdowns could keep production low in the next few months. This is by no means certain, however.

1. Concern about future price moves could lead to slower inventory use.
2. By the end of summer, at the latest, renewed economic growth and the necessity of rebuilding stocks should bring about a sharp increase in demand for OPEC oil.

C. At the same time, the ownership situation is rapidly changing.

1. Since 1973, several of the producing countries have greatly increased their share of ownership of the oil industry in their countries.
2. This trend is expected to continue in 1975, with Venezuela and possibly some Persian Gulf producers achieving 100 percent participation during the year.
3. Progress is not as rapid as previously expected, however. Qatar and Abu Dhabi are rethinking their nationalization plans and Saudi Arabia appears to have relaxed its time table.

D. At current price and production levels, the OPEC nations as a group will earn nearly \$95 billion from oil sales in 1975.

1. Those countries earning the largest revenues are Saudi Arabia (about \$26 billion), Iran (about \$20 billion), Venezuela and Nigeria (about \$8 billion each).
2. Most of the oil producing countries are earning more money than they can spend this year.
3. The OPEC countries as a whole are expected to spend just over \$50 billion for imports in 1975, leaving an investable surplus of about \$40 billion.
4. So far they are putting most of these funds into short-term bank deposits -- mostly in dollars.

IV. The October price hike will probably not be large enough to jeopardize renewed economic growth in the major countries.

- A. The OPEC members have a vested interest in a booming world economy. The demand for their oil depends upon it.
- B. The non-oil LDCs are beginning to press the oil producers on this issue. These other LDCs hope that renewed economic growth will increase demand for the commodities they export.

V. High oil costs, nevertheless, will continue to have a major impact in 1975.

A. In the industrialized countries, mounting oil bills are responsible in part for high rates of inflation and for the stagnation or decline of their economies.

1. During the first half of 1974, wholesale prices increased at an annual rate of over 30 percent. More than one-third of this increase was attributable to the direct and indirect effects of higher crude oil prices.
2. Growing oil bills also accounted for about one-third of the 15 percent rise in consumer prices during the period.
3. At the same time, about \$70 billion in purchasing power was shifted from the developed countries to the oil exporting countries. This, coupled with efforts to control inflation, turned the hoped-for "soft landing" into economic stagnation in most industrial countries.

B. High oil prices have also had a major impact on the balance of payments of the developed nations.

1. Last year, Canada, France, Italy, Japan, the United Kingdom, and West Germany saw their combined trade surplus drop from about \$13.0 billion in 1973 to about \$1.2 billion.

C. These problems will worsen for the LDCs in 1975.

1. Prices for oil, food, and fertilizer will remain high and those of manufactured goods will increase, whereas prices of many LDC exports will continue to fall.
2. The financing of balance-of-payments deficits will be more difficult because of drawdowns of international financial reserves and the exhaustion of private lines of credit.
3. The LDCs in 1975 will be increasingly dependent on assistance from the developed countries, OPEC countries, and international financial institutions.

6 June 1975

BACKUP FOR DCI CONGRESSIONAL BRIEFING

THE EUROPEAN ECONOMY

- I. Inflation in Western Europe has eased during the first four months of 1975 but will remain at historically high levels throughout the year.
 - A. In 1974, inflation in the four largest countries averaged more than three times the historic average of 4 percent. In the first third of 1975, inflation decelerated in most European countries with the notable exception of the United Kingdom.
 - 1. The recession in the developed countries has sharply reduced demand pressure on prices.
 - 2. Industrial raw material prices have fallen 40% since their peak in early 1974 as demand fell and companies began to liquidate inventories.
 - 3. The impact of higher oil prices has largely been passed through wholesale and retail outlets.
 - B. Although some further slowing in inflation probably will occur over the rest of 1975, price growth is unlikely to abate to historical levels.

EUR ECON - 1

1. Oil prices will undoubtedly increase in September.
 2. Catch-up wage hikes will bring greater pressure on manufactured goods prices.
 3. Lower raw material prices will be insufficient to offset higher wages; with profits already squeezed, industry will try to pass higher costs on to consumers.
- C. The United Kingdom and Italy will again suffer the highest inflation rates among major European countries, averaging 18-25 percent for the year. West Germany will continue to enjoy the lowest rate in the Western developed world -- perhaps as low as 6 percent.
- II. Economic growth in Europe plunged sharply last year and is expected to remain depressed during most of 1975.
- A. Real GNP growth in the major countries averaged 1 3/4 percent in 1974, and output is likely to fall slightly in 1975.

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1. West German output declined at an annual rate of 2.8 percent in the second half of 1974, because of restrictive government policies and falling foreign demand. The decline accelerated to an annual rate of 6% in the first quarter of 1975. While private consumption should recover moderately later this year because of tax cuts, declining investment and weak foreign demand will contribute to a small drop in GNP.
2. Italian growth in the second half of 1974 plunged at an annual rate of 7% in response to austerity measures. Although the government has eased its restrictive policy stance slightly, large inventories and substantial spare industrial capacity in the face of ~~flaccid~~ consumer demand augur a small decline in GNP.
3. British GNP declined slightly in 1974, mainly because of the prolonged coal strike last winter. This year GNP will probably dip slightly as higher taxes cut into consumer spending and investment declines across the board.

4. France grew at an enviable rate of about 4 percent last year. Growth probably will slip to under 2 percent in 1975 -- less than half of the long-term average but still faster than in other major developed countries.
- B. In late 1974, industrial output in Western Europe declined at a record annual rate of over 20%. The pace eased in the first few months of 1975, but some further declines are expected.
1. High unemployment and low capacity utilization are dampening consumer and investor confidence.
 2. Inventories remain at excessive levels.
 3. A sag in foreign demand is compounding the problem caused by lackluster domestic sales.
- C. Unemployment continues to mount.
1. In the four major countries, the combined number of unemployed this spring was 60 percent higher than a year earlier.
 2. The rise in the jobless rate has been most severe in West Germany, where the number of unemployed remained above the one million mark through April -- more than three times the long-term norm.

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